ICGN
International Corporate Governance Network

ICGN Annual Investor Stewardship Survey

Published February 2019

Published by the International Corporate Governance Network 2019.

A catalogue record for this guidance is available from the British library.

Introduction

The International Corporate Governance Network (ICGN) is pleased to share the results of our first Annual Investor Stewardship Survey. The survey reveals insights into the approach and activities of some of the world's leading institutions operating as active owners of their investments.

The purpose of the survey is to help ICGN Members benchmark their stewardship activities against their peers from around the world. The survey addressed a range of subjects and asked questions around stewardship resourcing, ESG integration, company engagement and voting. It aims to provide insights and better understanding about stewardship practices in the investor community, not least given that it is changing at unprecedented pace.

We use the term 'stewardship' throughout but readers should understand this to mean the whole of investors' corporate governance/responsible investment/ESG teams, depending on how each firm structures its approach to the issue.

Over 40% of ICGN Investor Members responded to the survey. Collectively, they represent £10.7 trillion in assets under management and are based in 12 countries (see Annex 1 for a List of Respondents). The results are detailed in this report and highlights include:

- Nearly 90% of stewardship functions report to either the chief investment officer (CIO) or chief executive of the investment institution
- Over 80% of institutions now have some form of exclusions policy, with controversial weapons excluded by most; tobacco and thermal coal are the next most common exclusions
- Most respondents say they carry out up to 500 company engagements a year, with some reporting significantly more than this. Most activity (62%) happens in the home market or home region. 28% of engagement is carried out on a collective basis, the bulk of this informal
- Board quality is the issue most discussed in company engagements, followed closely by remuneration and climate change
- While only 4.5% of respondents engage with other stakeholders in a company most of the time, a further nearly 49% of respondents do so sometimes or often. Less than 47% rarely or never engage with stakeholders. NGOs are by far the most likely stakeholder to be engaged with

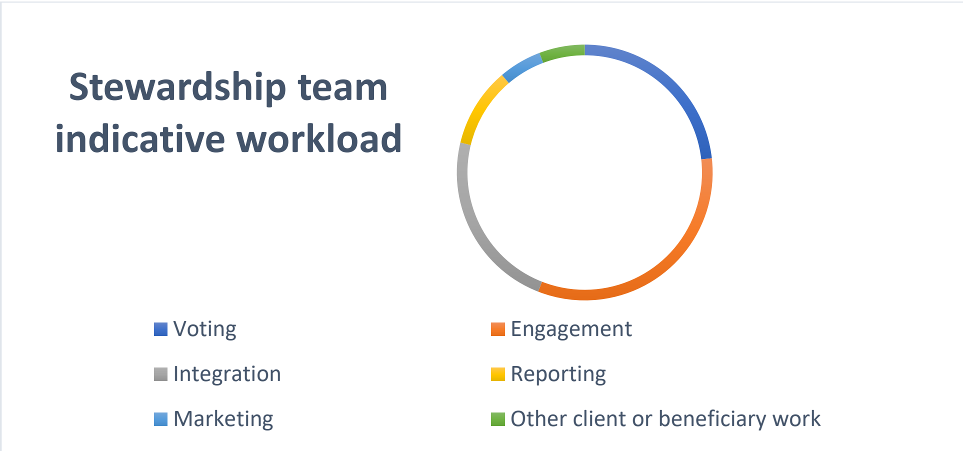
We are grateful to the ICGN Members who participated in this survey. Our intention is to repeat the survey on an annual basis to keep abreast of evolving best practice. The response rate of over 40% provides results which can be deemed representative not only of the ICGN membership but also of all those institutional investors that act as appropriate stewards of the companies in which they invest.

1. Workload

We asked about the overall workload of stewardship teams, and also of the leader of the team, split between the main core stewardship activities.

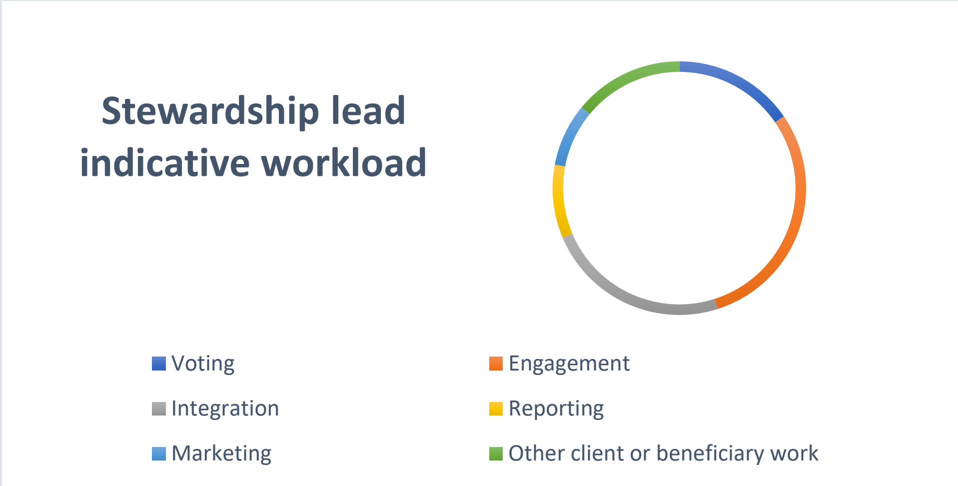
Teams

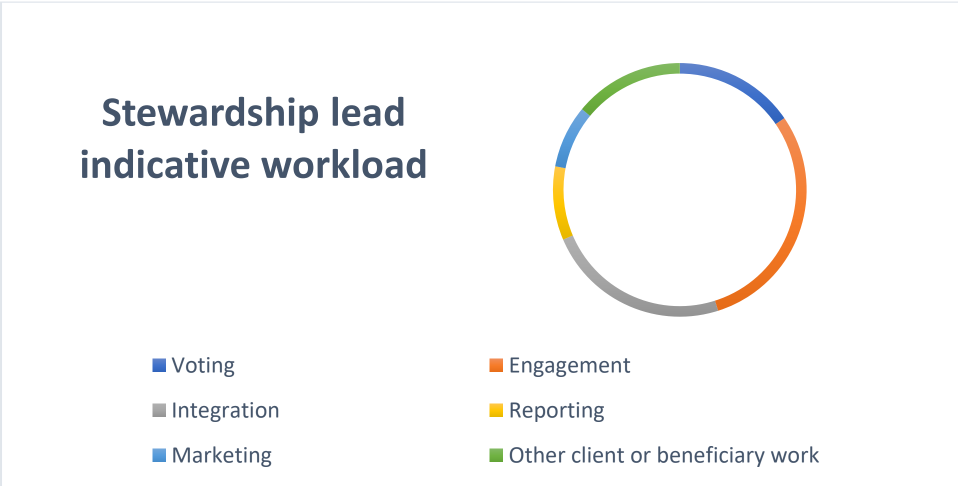
The greatest area of focus across teams as a whole is engagement, with this representing nearly 33% of total team workload. Voting and integration each represent around 23% of team activity, with reporting, marketing and client work in combination forming just over 21%.



Leaders

Even for the head of the stewardship team, while marketing and client work forms a greater part of the overall workload (8% and 14% respectively, in contrast to the less than 6% of the overall team burden), still the bulk of time is spent on stewardship activities themselves. Engagement is just under 30% of the workload, and integration 23.5%; voting, perhaps unsurprisingly, is a lower portion of the activity than for the team as a whole, but nevertheless represents 15.5% of activity. While voting is perhaps naturally a smaller element of the team leader's workload, only 11% of those responding state that the leader spends no time at all on voting matters. Reporting again forms around 10% of the total activity.

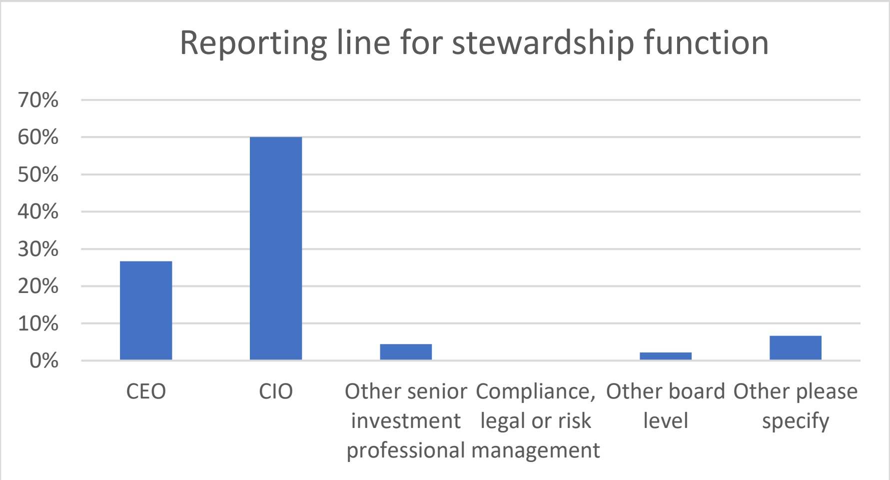

Stewardship lead
indicative workload
Voting
Engagement
Integration
Reporting
Marketing
Other client or beneficiary work


Stewardship lead
indicative workload
Voting
Engagement
Integration
Reporting
Marketing
Other client or beneficiary work

2. Approach to stewardship

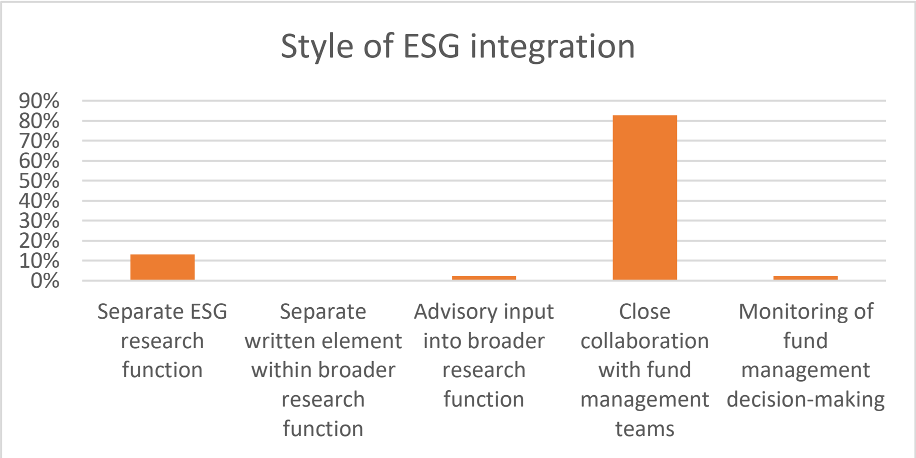
Reporting lines

At the majority of respondents (60%), the stewardship function reports to the Chief Investment Officer of the institution. With a further 27% reporting directly to the CEO, only 13% report to other levels, and none report to compliance, legal or risk.

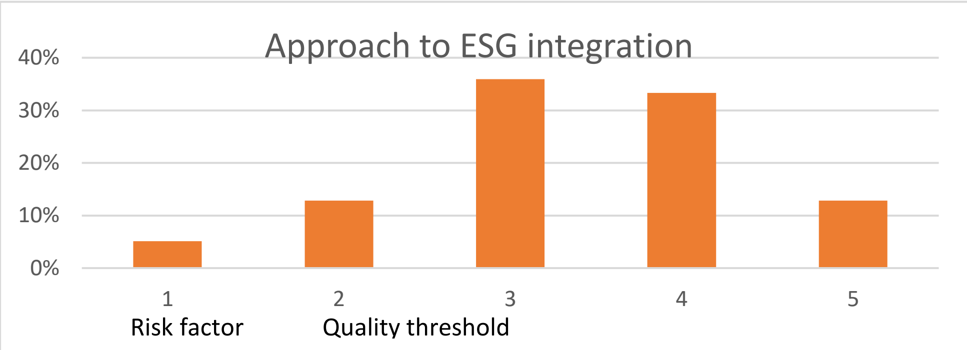


ESG integration

A similarly clear result came from our question about the style of ESG integration carried out by respondents. Just under 83% report an approach of close collaboration with their fund management teams, with the only other approach gaining any material responses being a separate ESG research function (13%).

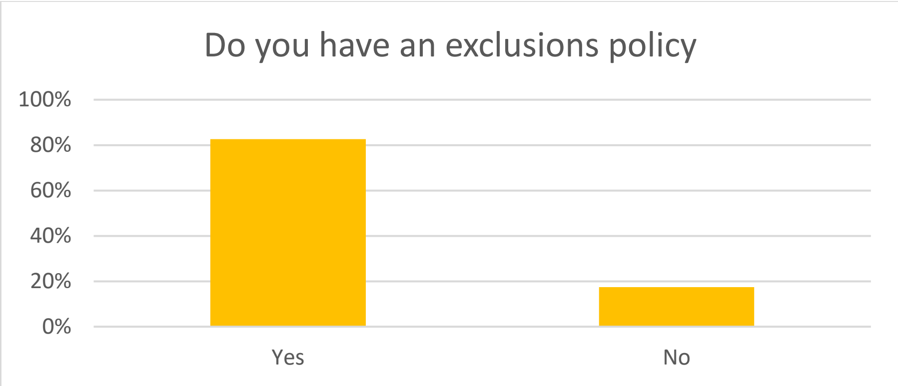


There is a much greater range of approaches to models for ESG integration, with the most popular choice (nearly 36%) being a balanced approach between treating ESG as a minimum quality threshold that must be reached before an investment is made, and a risk factor built into investment models. But overall, the respondents show a strong tendency towards a quality threshold model, with a total of just over 46% of respondents at this end of the spectrum, compared with under 18% at the risk factor end.

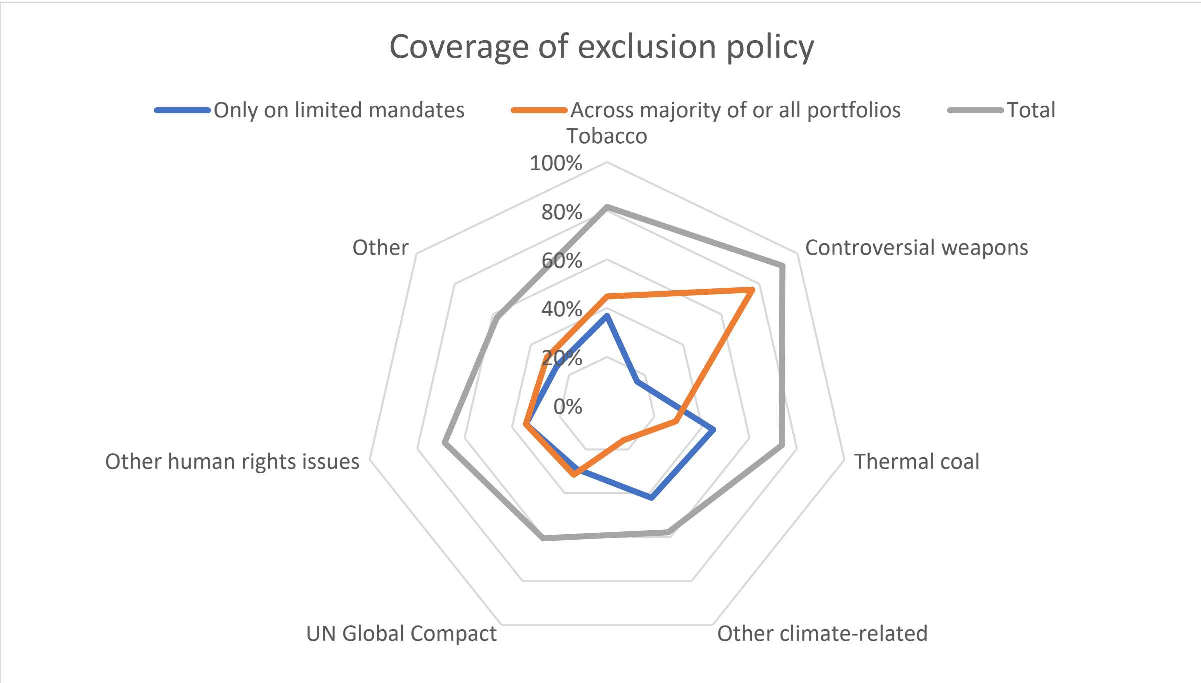


Exclusions

It is clear that the vast majority of respondents now have some form of exclusion policy. Nearly 83% report having a policy of some description.



However, there is much less homogeneity over the actual nature and coverage of those various exclusion policies. More than 92% of respondents with an exclusion policy exclude controversial weapons in some way, with the bulk of these policies (76 percentage points) applying across the bulk of or all portfolios. In contrast, thermal coal and other climate-related exclusions are more typically applied only to limited mandates (45% and 42% respectively), rather than across portfolios more widely (29% and 16%, for total coverage on these issues of 74% and 58% respectively). Tobacco is now excluded by more members across the majority or all portfolios (45%) than on only some mandates (37%), with more than 81% of investors with exclusions having some form applied to this sector.

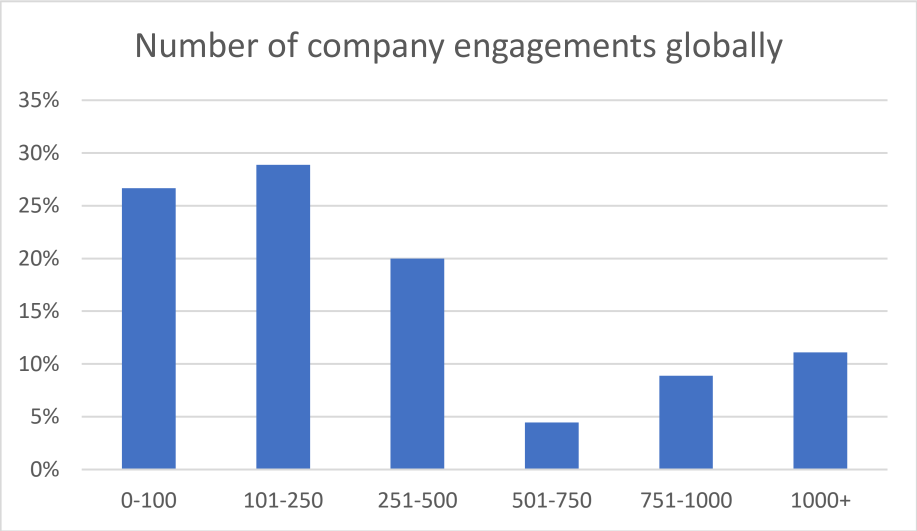


This spider graph reveals the exclusion policies of those respondents that have policies. Grey is the overall total percentage, the sum of the blue and orange lines (policies applying to limited mandates only, and to the majority of all portfolios, respectively). Each arm represents one possible form of exclusion, and measures the coverage as a percentage of those respondents with policies.

3. **Engagement**

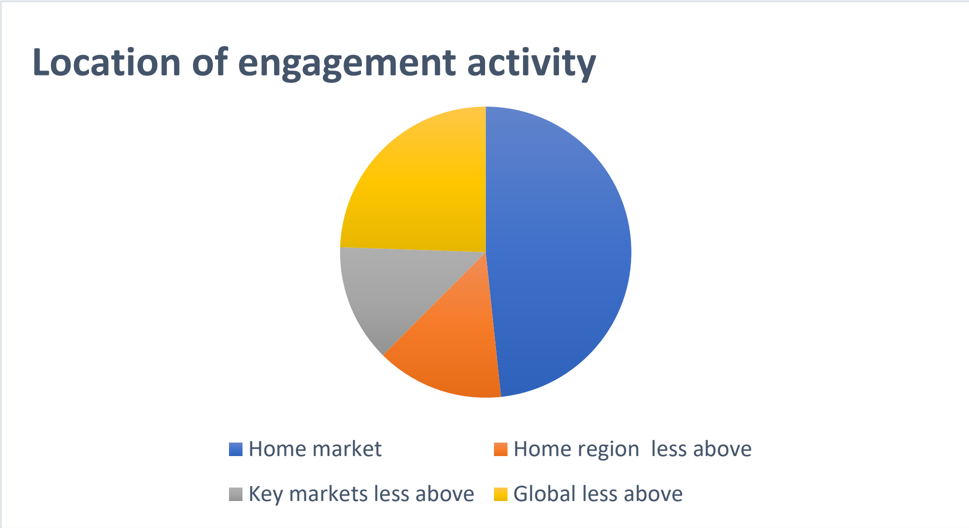
Level

The level of engagement activity varies greatly across respondents, with the bulk reporting up to 500 company engagements annually, but with some reporting significantly more than this. In part this is down to portfolios – the more boutique players with concentrated portfolios inevitably tend to report at the lower end of this range. But in part, the difference is one of definition: all those reporting more than 500 engagements a year include in their definition of engagement: (1) meetings led by a stewardship agenda; (2) active dialogue as part of fund management meetings; and (3) voting-related dialogue. Most of them also include: letter-writing and fund management monitoring meetings. Those members reporting lower numbers of engagements are typically more narrow in how they define their activity and so are less likely to include all of these actions in their definition of engagement.



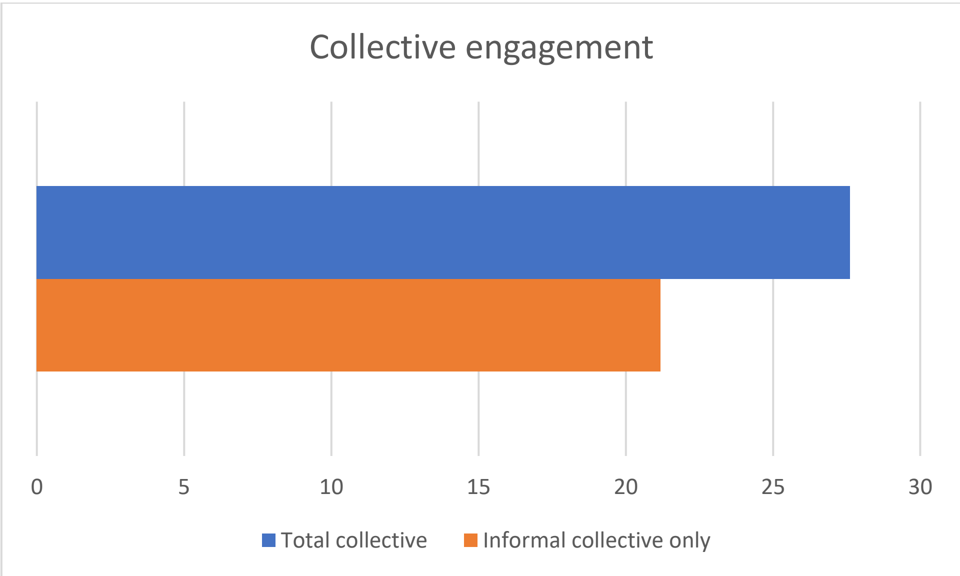
Location

Most of this activity occurs close to the investor's base. On average, home market activity represents over 48% of the total – and it is rare for it to form less than 25% of any investor's workload. Over 62% of engagement activity is in the home market and home region together. The main reasons for this tendency to focus locally are likely to be having larger investment exposure locally (meaning greater value is at risk and also there may be scope for greater influence) and heightened client and/or beneficiary (and perhaps regulator) interest.



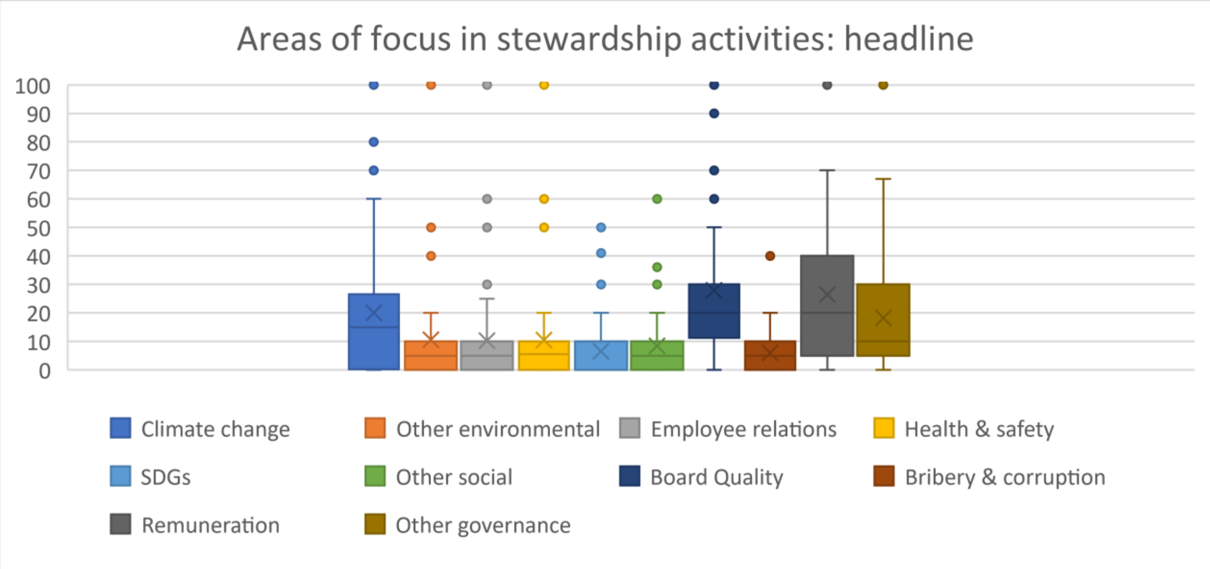
Collective engagement

Respondents report that almost 28% of their total engagement is carried out on a collective basis, the bulk of this by way of informal collaborations.



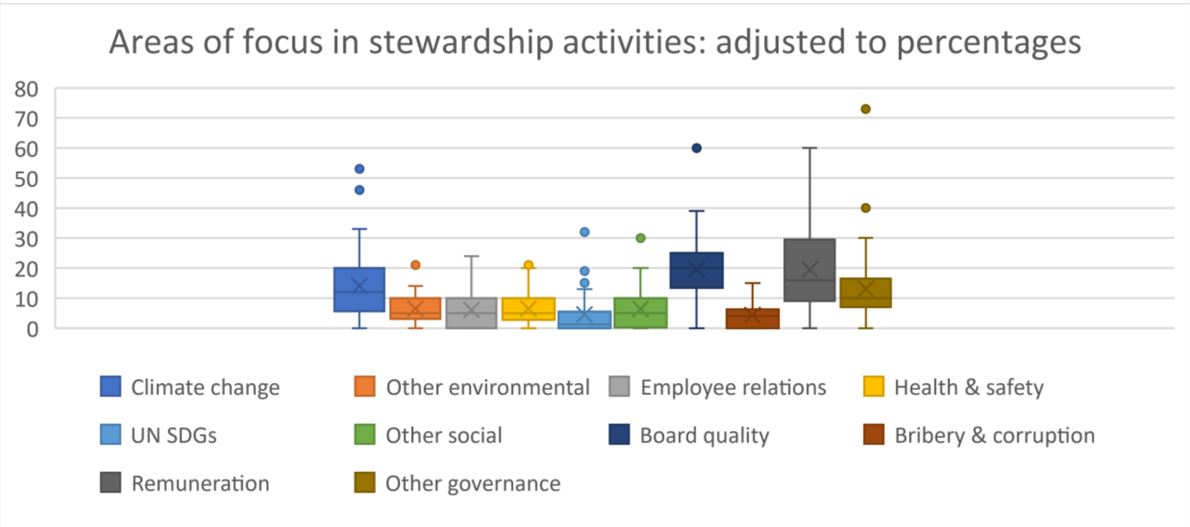
Engagement issues

We asked respondents to identify the key areas of focus in their engagement work. In order of average level of focus, the leading areas were: board quality, remuneration and climate change.



We permitted these answers to total more than 100%, and there were a number of respondents that gave 100% answers for some individual topics, meaning that some respondents seek to include one or more of climate change, other environmental issues, employee relations, health & safety, board quality, remuneration and other governance issues in their dialogues with all companies.

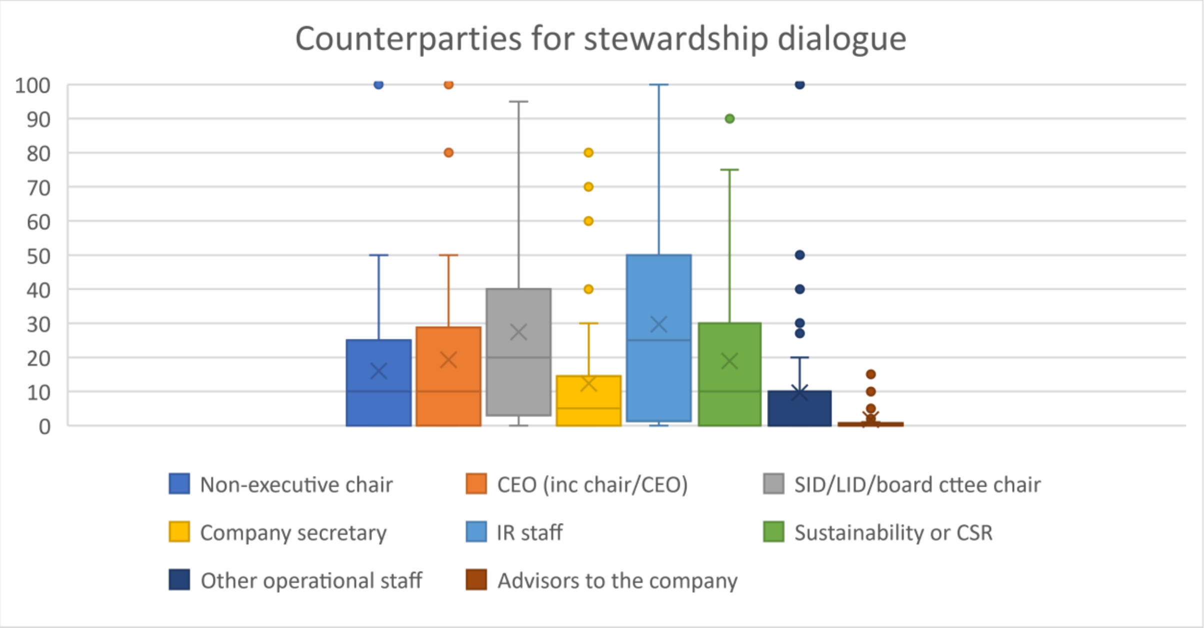
While we had permitted the answers to total more than 100%, most respondents restricted themselves to this total. In order to aid comparability we have adjusted the responses so that in the following chart all the numbers can be read as percentages. Again on this basis, the leading areas remain board quality, remuneration and climate change.



Counterparts for dialogue

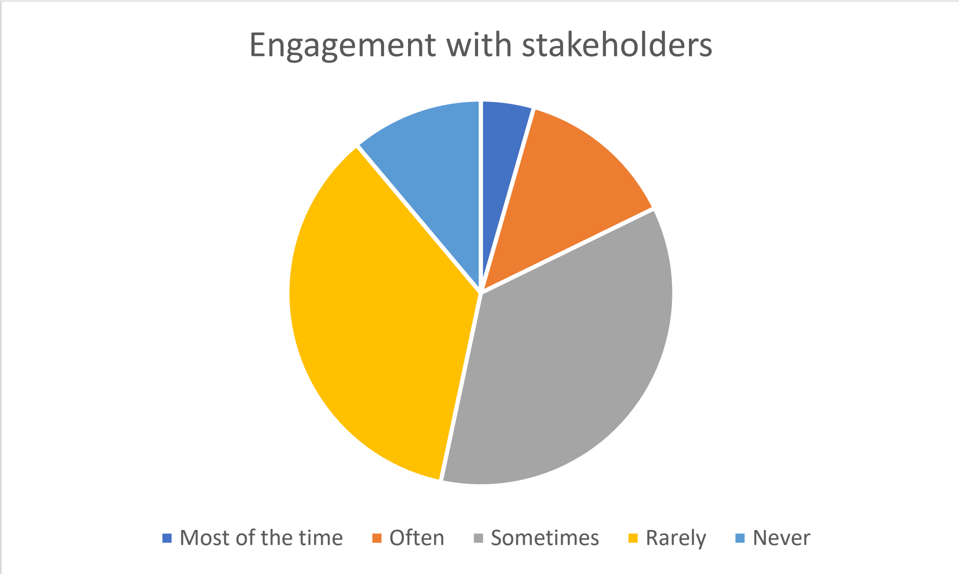
While some respondents report always seeking dialogue with non-executive chairs, and also CEOs and other operational staff, the most frequent counterparts for stewardship engagement are investor relations staff. Following them are the most senior of the non-executive directors (other than the chair): the lead, or senior, independent director, and the chairs of individual board committees. The third most likely counterparts for stewardship dialogue are sustainability or corporate social responsibility staff at the company.

Corporate advisers are very rarely relied on as counterparts for stewardship engagement.



Stakeholders

While only 4.5% of respondents engage with other stakeholders in a company most of the time, a further nearly 49% of respondents do so sometimes or often. Less than 47% rarely or never engage with stakeholders.

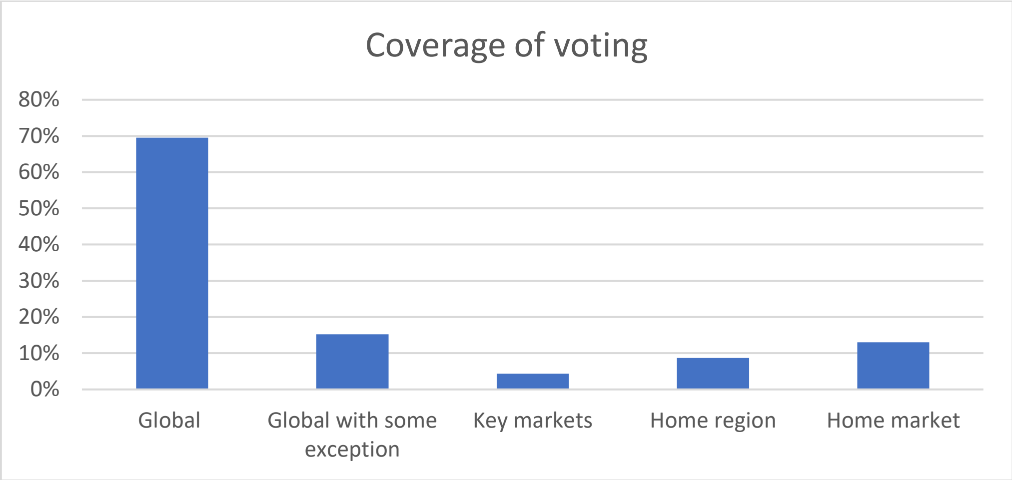


NGOs are by far the most likely stakeholder to be engaged with, followed by suppliers and employees.

4. Voting

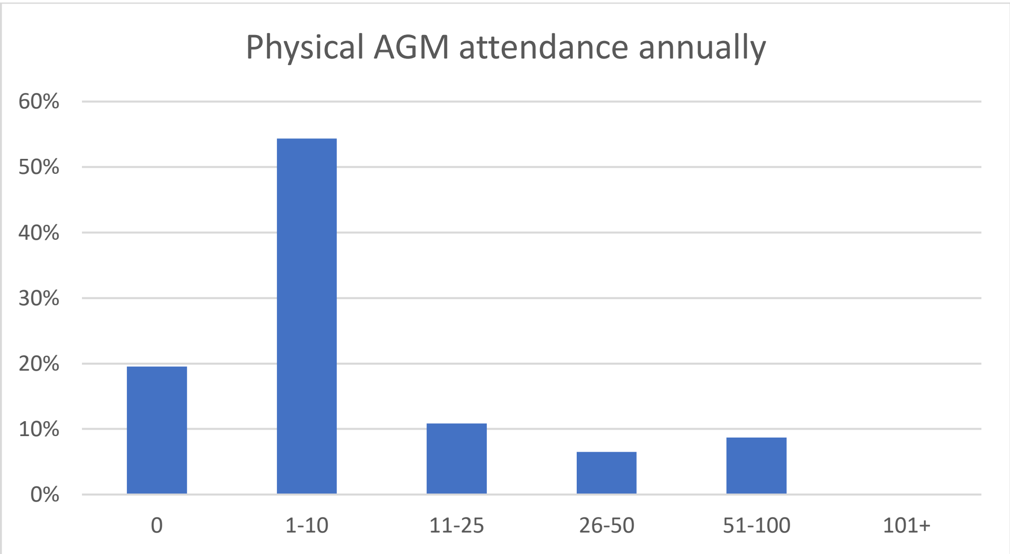
Coverage

The majority of respondents vote across all their holdings globally, with nearly 70% reporting this level of coverage. A further 15% report voting globally apart from some limited exceptions.



Physical AGM attendance

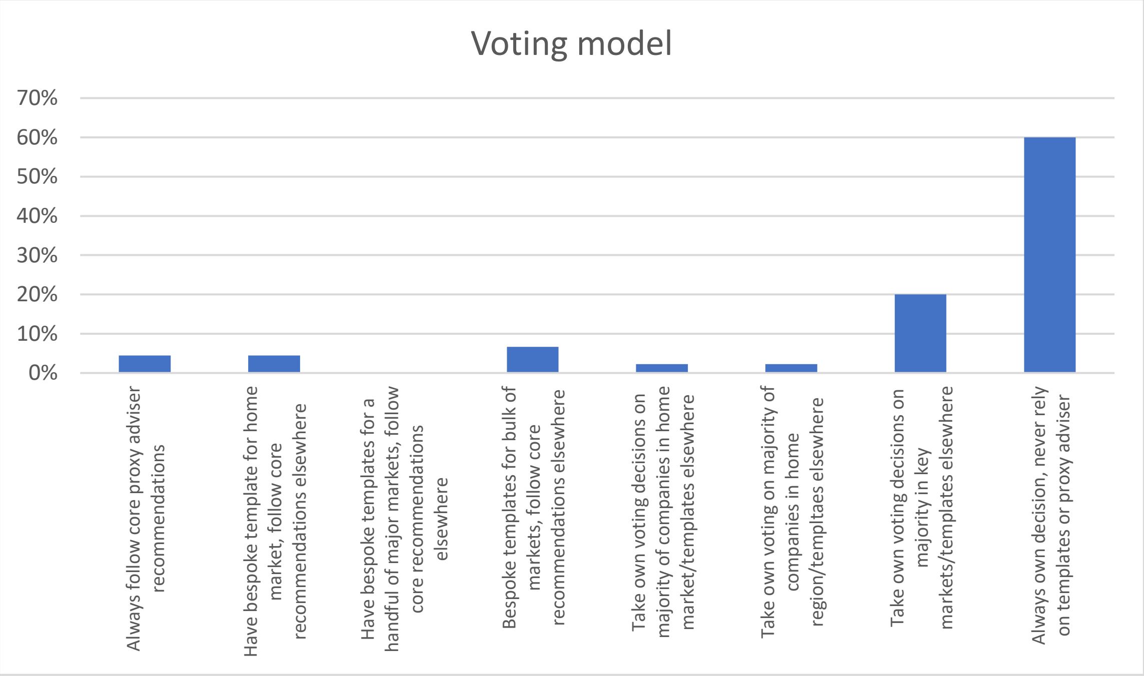
The bulk of this voting is by proxy: respondents do not physically attend many company general meetings, whether AGMs or EGMs. A significant majority attend 10 or fewer shareholder meetings each year, while no institution attends more than 100 meetings in a year (though 63% of respondents report being invested in the equity of more than 1000 companies worldwide). Of those at the higher end of the scale, half of those attending more than 25 meetings a year (and the majority of those attending more than 50 in a year) are from Scandinavian markets, where voting by proxy is not possible and so there is a greater expectation of physical attendance by institutions themselves.



Proxy advice

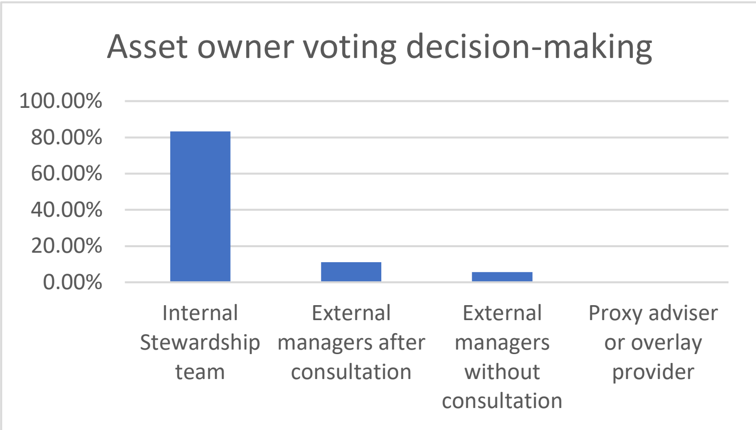
Fully 60% of respondents state that they always take their own voting decisions and never rely on their proxy adviser advice, nor even rely on the bespoke templates that they set up with their proxy adviser to deliver recommendations consistent with their own voting policies. A further 20% of respondents always take their own voting decisions on the majority of meetings in key markets, and only lean on templates reflecting their own policies elsewhere; others strike a different geographical split between their own voting decisions and the use of templates with 2% each taking their own voting decisions in their home market or home region.

Thus almost 85% of respondents say that proxy advisers' recommendations have minimal influence on their eventual voting decisions, with fewer than 4.5% always following their adviser's core recommendations.

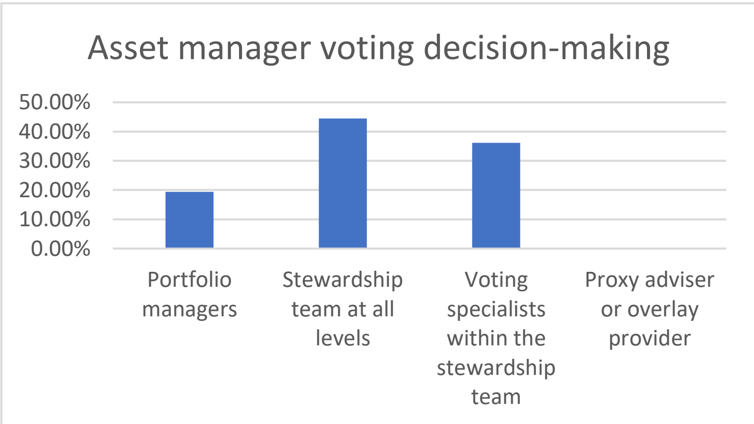


Decision-making process

This result is congruent with the responses regarding how investors take their voting decisions, where we sought answers separately from asset owners and asset managers. Both sets of respondents indicate that none rely simply on proxy advisers or stewardship overlay providers to take their voting decisions. The results for asset owners are clearest, with the significant majority (83%) relying on the decision-making of their internal stewardship team, and only a small number leaning on their external fund managers.

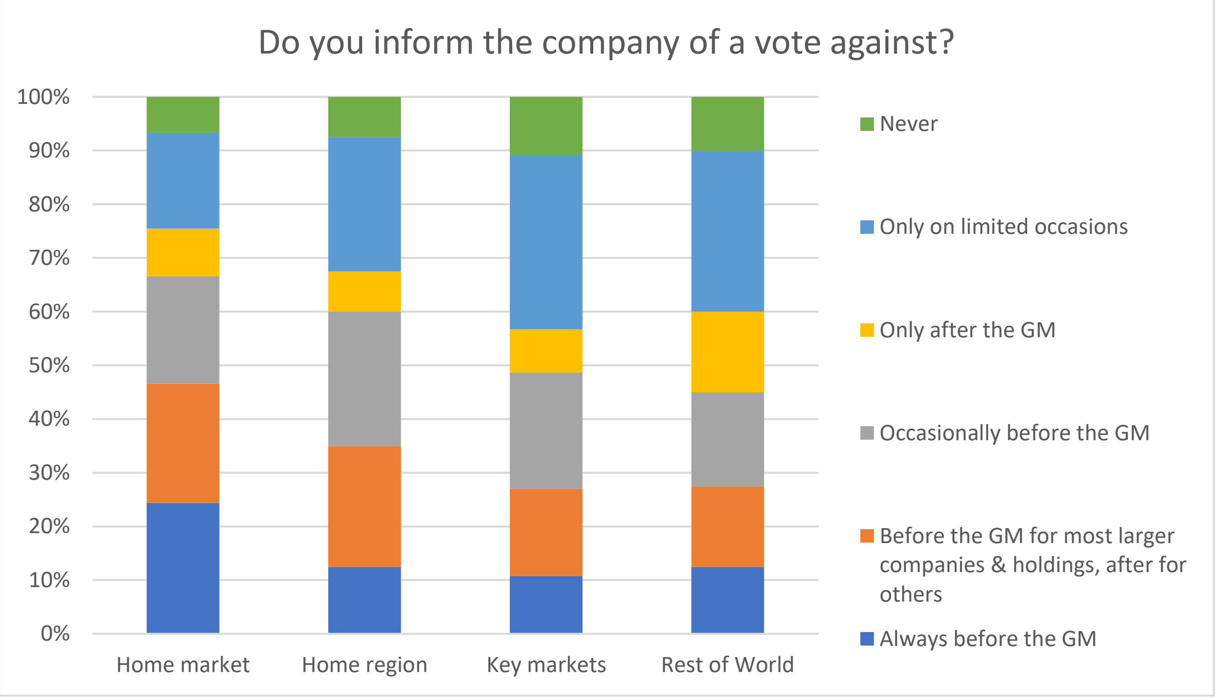


The internal stewardship team is also the largest answer for asset managers, with 44% expecting voting to be covered by the stewardship team as a whole, and further 36% seeing votes handled by specialists within the stewardship function. Less than 20% expect their fund managers to take voting decisions.



Informing company of voting decision

Respondents' approach to informing companies about their voting decisions differs markedly across different geographies. Only in the home market do nearly 25% of investors always inform companies of a negative voting intention ahead of the meeting, and a further nearly a quarter do so in the home market for larger companies and holdings. At the other end of the scale, outside the home region more than 50% of investors never inform companies, or only do so on limited occasions or only after the shareholder meeting.



The following are those participants in the survey who were willing to allow us to mention their names in this report. We are grateful to them and also to the many anonymous participants.

Aberdeen Standard Investments	United Kingdom
Achmea Investment Management	Netherlands
Addenda Capital Inc.	Canada
AMP Capital	Australia
AP3	Sweden
AP4	Sweden
APG Asset Management	Netherlands
Asset Management One	Japan
Aviva Investors	United Kingdom
Baillie Gifford	United Kingdom
Berenberg, Gossler & Co. KG	Germany
Blue Harbour	United States
BMO GAM (EMEA)	United Kingdom
BNP Paribas Asset Management	France
Boston Common Asset Management	United Sates
British Airways Pensions	United Kingdom
Capital Group	United Kingdom
Cartica Management. LLC	United States
CCLA Investment Management Ltd	United Kingdom
Cevian Capital	United States
Eurizon Capital	Italy
Evenlode Investments	United Kingdom
Fidelity International	United Kingdom
Florida State Board of Administration (SBA)	United States
Generali Investments	Italy
Investec Asset Management	South Africa
JP Morgan Asset Management	United Kingdom
LGIM	United Kingdom
LGPS Central	United Kingdom
Los Angeles County Employees Retirement Association (LACERA)	United States
Momentum Investments	South Africa
Newton Investment Management	United Kingdom
Nordea Funds	Sweden
OFI	France
Old Mutual Investment Group	South Africa
Ontario Teachers' Pension Plan	Canada
Phitrust	France
PSP Investments	Canada
Robeco	Netherlands
Triodos Investment management	Netherlands
UBS Asset Management	United Kingdom
Wespath Investment Management	United States

We are grateful to Paul Lee for developing the survey and compiling this report.